

INTERNAL REVENUE SERVICE

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March 15, 2000

Attention: [REDACTED]

Dear [REDACTED]:

This letter is in response to your inquiry dated February 7, 2000, on behalf of your constituents, [REDACTED]. [REDACTED] letter to you, which we have enclosed for your convenience, expresses concerns regarding 1999 income tax liability for investors in the Baptist Foundation of Arizona (BFA). In 1999, the BFA froze investor accounts and filed for bankruptcy protection. Earlier in the year and prior to taking these actions, however, the BFA had made some distributions. The BFA recently issued Forms 1099-INT to investors who received those cash payments.

Anticipating that many taxpayers would, much like [REDACTED], have questions and could benefit from receiving pre-filing tax guidance, the Internal Revenue Service (IRS) launched an extensive informational outreach program that is administered primarily by personnel located in its Tempe, Arizona, office. (It is estimated that more than 9,000 BFA investors, a majority of the affected taxpayers, live in Arizona.) To date, under this outreach program, the IRS has already (1) developed a five-page handout containing the answers to frequently asked questions, which it distributes to requesting parties (copy enclosed); (2) prepared news releases that include the names and telephone numbers of Arizona-based IRS employees to contact for further information; (3) granted interviews to local newspapers; (4) held a half-dozen informational meetings in Baptist churches, and (5) fielded more than 300 individual telephone calls.

In brief, the IRS is delivering general information advising affected taxpayers that:

(1) Losses, if any, cannot be determined until after the bankruptcy liquidation is complete and any personal lawsuits have been finally adjudicated. In general, deductible IRAs will yield no loss, and losses will be limited to the amount of the taxpayer's basis in non-deductible/Roth IRAs, Maximum Performance Value Accounts, and Easy Access Accounts. No loss will be generated in the amount of accrued, but unpaid, interest that the taxpayer did not take into income;

(2) Taxpayers who received a cash distribution in 1999 must report the interest income on their 1999 return. (This amount should be the same as that reported by BFA on the Form 1099-INT);

(3) Along with copies of their 1999 income tax returns, taxpayers should retain copies of the Forms 1099-INT received from BFA, and their December 31, 1998, and subsequent BFA-provided investor statements; and

(4) The IRS is currently studying the issues surrounding BFA's potential inability to satisfy the laws regarding minimum distribution requirements. More information will be disseminated as soon as it is available.

I hope this information is helpful. Although the IRS informational outreach program is being spearheaded locally, in Tempe, by Mr. Andrew J. Gruden and Mr. George Lyford, at (602) 207-8769 or (602) 207-8793, please also feel free to contact A. Katharine Jacob Kiss, Identification Number 50-03990, at (202) 622-4920, if we may be of further assistance.

Sincerely,

Deputy Assistant Chief Counsel
(Income Tax & Accounting)

By _____
Robert A. Berkovsky
Chief, Branch 2

Enclosures (2)